

# **BOND ACCELERATED PROGRAM**

05 - 0035

## **LEGISLATIVE REPORT ON TRUNK HIGHWAY BONDING**

**JANUARY 14, 2005**

**Minnesota Session Laws of 2003  
1<sup>st</sup> Special Session  
Chapter 19  
Article 3**



# TABLE OF CONTENTS

INTRODUCTION .....	1
I. Project Status Update.....	3
A. Bond Accelerated Projects.....	3
B. Safety & Preservation Projects .....	6
C. Metro Transit Advantage Projects .....	7
D. Greater Minnesota Transit Projects .....	8
II. Compliance with Trunk Highway Bonding Reporting Requirements -	
Art. 3, § 1, Subd. 2 and § 5 (1 and 2).....	9
A. Geographic Distribution Requirements .....	9
B. Safety and Capacity Requirements .....	9
C. Program Delivery Requirements to Complete BAP Projects .....	9
D. Transit Requirements .....	10
III. Compliance with Federal Advance Construction Reporting Requirements - .....	11
Art. 3, § 3(d) and § 5(1) .....	11
A. Federal Funding and Advance Construction (AC) Background.....	11
1. Federal Funding .....	11
2. Federal Advance Construction (AC) .....	12
B. AC and the Bond Accelerated Program.....	14
C. Estimate of Additional AC Available in Future Years .....	17
IV. Impact of AC on the Trunk Highway (TH) Fund Balance and Cash Flow .....	17
A. TH Fund Balance .....	18
B. TH Fund Cash.....	18

## FIGURES

Figure 1: Bond Accelerated Projects.....	4
Figure 2: Safety & Preservation Projects .....	6
Figure 3: Metro Transit Advantage Projects .....	7
Figure 4: Greater Minnesota Public Transit Projects .....	8
Figure 5: Mn/DOT District and Expert Office Program Delivery for Completing Bond Accelerated Program .....	10
Figure 6: Transportation Funding Sources .....	11
Figure 7: AC Example: Improving Federal Funds Management .....	13
Figure 8: AC Example: Project Packaging.....	13
Figure 9: Mn/DOT's Federal AC Totals .....	14
Figure 10: Example of Bond Accelerated Project Financing.....	15
Figure 11: Estimated Bond Project Encumbrances & Expenditures.....	16



## Minnesota Department of Transportation

---

### Office of Commissioner

Mail Stop 100  
395 John Ireland Blvd.  
St. Paul, MN 55155

Office Telephone: (651) 297-2930

January 14, 2005

The Honorable Steve Murphy  
Senate Transportation Committee  
306 Capitol  
St. Paul, Minnesota 55155

The Honorable Ron Erhardt, Chair  
House Transportation Committee  
591 State Office Building  
St. Paul, Minnesota 55155

The Honorable Mary Liz Holberg, Chair  
House Transportation Finance Committee  
443 State Office Building  
St. Paul, Minnesota 55155

Dear Senator Murphy, Representative Erhardt, and Representative Holberg:

In compliance with Minnesota Session Laws 2003 1<sup>st</sup> Special Session, Chapter 19, Article 3, I am submitting this report on the 2004 Transportation Finance Package which is referred to as the Bond Accelerated Program. The report provides the information requested by the legislature on the current financing of the transportation projects accelerated under the Bond Accelerated Program.

This BAP Report demonstrates that the 2003 Transportation Finance Package is on course to be one of the most successful state transportation construction programs in history. Seventeen major highway construction and safety/preservation projects are on schedule to be delivered more than 60 years ahead of their original schedules. This will result in substantial savings from inflation and provide transportation system users with significant benefits years ahead of schedule.

Please contact me, or Al Schenkelberg (651)296-8478, MnDOT's Office of Investment Management Director, if there are questions about this report.

Sincerely,

Carol L. Molnau  
Lieutenant Governor and Commissioner

Attachment

cc: Patrick Flahaven, Secretary of the Senate  
Albin A. Mathiowetz, Chief Clerk of the House  
Legislative Reference Library (6)  
Senate Transportation Committee Members  
House Transportation Finance Committee Members  
House Transportation Committee Members  
Margaret Amundson, Committee Administrator  
Becky Girvan, Committee Administrator  
Billie Ball, Committee Administrator

# **BOND ACCELERATED PROGRAM LEGISLATIVE REPORT**

## **INTRODUCTION**

This Bond Accelerated Program Legislative Report (BAP Report) is submitted by the Commissioner of the Minnesota Department of Transportation (Mn/DOT) in response to the requirements specified in Chapter 19, Article 3, Laws of 2003, 1<sup>st</sup> Special Session. This is the second BAP Report submitted to the Minnesota Legislature since the inception of the Bond Accelerated Program. The first BAP Report was submitted on January 15, 2004 (2004 BAP Report). The specific legislative reporting requirements are highlighted in bold below.

### **ARTICLE 3 TRUNK HIGHWAY BONDING**

#### **Section 1. [HIGHWAY AND TRANSIT APPROPRIATIONS.]**

##### **Subdivision 1. [TRUNK HIGHWAY PROJECTS FINANCED BY STATE BONDS.]**

(a) \$400,000,000 is appropriated from the bond proceeds account in the trunk highway fund to the commissioner of transportation for trunk highway improvements. This appropriation is for:

- (1) trunk highway improvements within the seven-county metropolitan area primarily for improving traffic flow and expanding highway capacity by eliminating traffic bottlenecks and improving segments of at-risk interregional corridors within the seven-county area; and
- (2) trunk highway improvements on at-risk interregional corridors located outside the seven-county metropolitan area. These appropriations include the cost of actual payment to landowners for lands acquired for highway right-of-way, payment to lessees, interest subsidies, and relocation expenses. Within each category in clauses (1) and (2), the commissioner shall spend not less than \$25,000,000 on highway safety and capacity improvement projects including but not limited to the addition of lanes on trunk highway corridors with known safety problems.

(b) In spending the appropriation under paragraph (a), the commissioner shall, to the maximum feasible extent, seek to allocate spending equally between the department of transportation metropolitan district and the remainder of the state.

(c) The commissioner of transportation may use up to \$68,500,000 of this appropriation for program delivery.

(d) The commissioner shall use at least \$36,000,000 of this appropriation for accelerating transit capital improvements on trunk highways such as shoulder bus lanes, bus park-and-ride facilities, and ramp meter-bypass facilities.

**Subd. 2. [REPORT.] The commissioner shall report to the committees having jurisdiction over transportation finance in the house of representatives and senate, no later than January 15 of each year through 2007, on projects selected to be funded by this appropriation. The report must include the geographic distribution of the selected projects and their adherence to the criteria and spending allocation goals listed in subdivision 1, and the location and cost of each project.**

**Subd. 3. [BOND SALE EXPENSES.] \$400,000 is appropriated from the bond proceeds account in the trunk highway fund to the commissioner of finance for bond sale expenses under Minnesota Statutes, Section 16A.641, subdivision 8.**

Subd. 4. [CANCELLATION.] Any part of the appropriation in this section that is not encumbered or otherwise obligated by June 30, 2007, must be canceled to the trunk highway bond account in the state bond fund.

Sec. 2. [BOND SALE.]

To provide the money appropriated in section 1, subdivisions 1 and 4, from the bond proceeds account in the trunk highway fund, the commissioner of finance shall sell and issue bonds of the state in an amount up to \$400,400,000 in the manner, on the terms, and with the effect prescribed by Minnesota Statutes, sections 167.50 to 167.52, and by the Minnesota Constitution, article XIV, section 11, at the times and in the amounts requested by the commissioner of transportation. The proceeds of the bonds, except accrued interest and any premium received from the sale of the bonds, must be deposited in the bond proceeds account in the trunk highway fund.

Sec. 3. [ADVANCE CONSTRUCTION.]

(a) Through June 30, 2009, the commissioner of transportation may spend up to \$400,000,000 on trunk highway improvements from funds approved for expenditure by the Federal Highway Administration and designated as advance construction funds.

(b) Any additional advance construction expenditures by the commissioner approved by the Federal Highway Administration through June 30, 2009, may be added to the amount in paragraph (a).

(c) In spending federal funds under paragraphs (a) and (b), the commissioner shall, to the maximum feasible extent, seek to allocate spending equally between the department of transportation metropolitan district and the remainder of the state.

**(d) The commissioner shall report to the chairs of the senate and house of representatives committees with jurisdiction over transportation policy and finance by January 15 each year regarding the use of advance construction funding in the previous and current fiscal year. The report must include:**

- (1) an analysis of the impact of the use of advance construction funding on the trunk highway fund balance and cash flow;**
- (2) an estimate of the amount of additional advance construction funding that is available for use in future fiscal years and the impact on the department's total road construction program; and**
- (3) geographic distribution of spending and compliance with the spending goal in paragraph (c).**

Sec. 4. [GREATER MINNESOTA TRANSIT.]

The commissioner of transportation may spend up to \$5,000,000 through June 30, 2008, in federal transit funds for capital assistance to public transit systems under Minnesota Statutes, section 174.24. This amount is in addition to any appropriations made by law for this purpose.

Sec. 5. [REPORT.]

**The commissioner shall report by January 15 of each year through 2007 to the chairs of the legislative committees with jurisdiction over transportation policy and finance on (1) how the department is spending the appropriations in this article for trunk highway improvements, and (2) the department's plans to implement trunk highway improvements funded under this article with current department staffing, and an analysis of the need for additional staffing and consultant services.**

Sec. 6. [EFFECTIVE DATE.]

Sections 1 to 4 are effective the day following final enactment.

Article 3 above establishes the 2003 Transportation Finance Package which is referred to as the "Bond Accelerated Program."

This BAP Report does not repeat everything that was in the 2004 BAP Report. For example, the project selection processes set forth in the 2004 BAP Report are not repeated in this BAP Report. Nor is all of the background information on Federal Funding and Federal Advance Construction (AC) procedures repeated. For information on BAP project selection processes and background on Federal Funding and Federal AC, refer to 2004 BAP Report, which can be obtained at [www.oim.dot.state.mn.us](http://www.oim.dot.state.mn.us) or by calling Mn/DOT's Office of Investment Management 651/296-8475.

This BAP Report contains an update on the status of the projects accelerated under this program. It also provides the information requested by the legislature regarding the impact of this program on Mn/DOT's overall construction program, the Trunk Highway (TH) Fund, TH Cash, and Mn/DOT staffing and consultant services.

This BAP Report demonstrates that the 2003 Transportation Finance Package is on course to be one of the most successful state transportation construction programs in history. Seventeen major highway construction and safety/preservation projects are on schedule to be delivered more than 60 years ahead of their original schedules. This will result in substantial savings from inflation and provide transportation system users with significant benefits years ahead of schedule.

## **I. Project Status Update**

### **A. Bond Accelerated Projects**

The 2003 Transportation Finance Package provided \$400 million of TH Bonding authority and \$400+million of Federal Advance Construction authority to accelerate TH improvements throughout the state. The improvements accelerated under this authority are known as the Bond Accelerated Projects. Figure 1 contains information on the current status of the Bond Accelerated Projects.

**FIGURE 1**

**Bond Accelerated Projects  
(\$ Millions)**

DIST	TH	LOCATION	ORIG. SCHED. YEAR	CURRENT LETTING DATE	FED. ADVANCE CONST.	TH BONDS	TOTAL CONST & PROG. DEL.
<b>GREATER MINNESOTA</b>							
1	53	Piedmont Ave to TH 194 in Duluth – Reconst.	2012	4/22/05	\$ 3.2	\$ 11.2	\$ 14.4
2	34	In Park Rapids – Reconst.	2008	12/23/06	6.8	2.4	9.2
3	371	TH 10 to CSAH 48 N of Little Falls – Const 4 Lane Expressway	2006	3/25/05	3.2	19.6	22.8
3	101	Crow River to Mississippi River – Interchanges & Bridges	2013+	4/28/06	18.7	35.5	54.2
3	94	At Monticello – Bridges and Roadway Realignment	2007	Project downsized to bridge improvements and being delivered through regular program ahead of original schedule			
4	10	In Detroit Lakes – Reconst.	2007-10	10/27/06	32.5	8.9	41.4
6	52	At Oronoco – Reconstruction (D/B)	2005-09	11/16/05	18.3	15.6	33.9
7	14	Janesville to Waseca – Const. 4 Lane Expressway	2005-10	LET 2/27/04	17.5	23.3	40.8
8	212	Hennepin CSAH 4 to Carver CR 147 – Const 4 Lane Expressway (D/B)	2013+	3/4/05	56.1	83.5	139.6
		<b>SUBTOTAL</b>			156.2	200.0	356.2
<b>METRO DISTRICT</b>							
M	NA	Metro District State Highways – Transit Advantages	NA	2004-07		36.0	36.0
M	212	Hennepin CSAH 4 to Carver CR 147 – Construct 4 Lane Expressway (D/B)	2013+	3/4/05	92.4	41.8	134.2
M	694	W to E Jct I35E in Vadnais Hgts – Reconstruct -- Stage 1A Edgerton Bridge	2008	LET 2/17/04	2.9	.4	3.3
		-- Stage 1B Edgerton Bridge Approaches		LET 7/23/04	.4	1.6	2.0
		-- Stage 2 Main Unweave the Weave Project		9/23/05	86.5	37.3	123.8
M	169	Anderson Lakes to I494 - Interchanges & Bridges	2009-13+	LET 5/21/04	5.7	18.5	24.2
		-- Anderson Lakes/Pioneer Trail Interchanges		Potential Letting 12/06 pending sufficient TEA-21 Reauthorization federal fund increases			
M	494	I 394 to TH 212/5 in Eden Prairie/Minnetonka (D/B)	2011-12	LET 5/14/04	82.1	64.4	146.5
		<b>SUBTOTAL</b>			270.0	200.0	470.0
		<b>GRAND TOTAL</b>			\$426.2	\$400.0	\$826.2

**Key:**

CR	County Road	D/B	Design Build	I	Interstate
CSAH	County State Aid Highway	DIST	District	TH	Trunk Highways (state highways)

The 2004 BAP Report indicated that project costs and timing would likely change as the projects continued through the complex and often unpredictable project development process. The report also indicated that project cost increases and numerous other factors could create a need for project delays. A significant factor that has affected project delivery has been the lack of a Federal Reauthorization Bill and the piecemeal fashion in which Congress and the Federal Highway Administration (FHWA) have distributed federal funds to the state.

Since the 2004 BAP Report was published, there have been several changes in project costs and timing. The more significant changes include the following:

- TH 14 project was let for approximately \$24 million less than originally estimated
- Stage 1B of the I-694/I-35E Unweave the Weave project was let for approximately \$1.3 million less than estimated
- TH 53 project in Duluth is scheduled to be let over one year ahead of the proposed advance year
- Anderson Lakes/Pioneer Trail portion of the TH 169 project was let approximately two years ahead of the proposed advance year and for \$1.5M less than estimated.
- Stage 1A of the I-694/I-35E Unweave the Weave project was let over four months ahead of the proposed advance date
- I-494 project was let for approximately \$59 million more than the original scoping estimate
- TH 212 project cost estimate is approximately \$40 million more than the original financial estimate
- TH 52 Oronoco project cost estimate is approximately \$7.9 million more than the original scoping estimate.
- Stage 2 of the I-694/I-35E Unweave the Weave project is now scheduled for letting nine months later than anticipated
- I-494/Highwood Drive Interchange portion of the TH 169 project is now tentatively scheduled for letting one year later than anticipated only if a Federal Reauthorization Bill provides sufficient funding

Other project changes included the determination that I-94 Monticello project could be completed as a bridge redeck project rather than a bridge reconstruction and roadway realignment project. Consequently, the cost of the project was dramatically reduced and could be completed within Mn/DOT's regular construction budget. In addition, the bridge redeck project may not have been eligible under the BAP project selection criterion that required a 20-year useful project life.

The 2003 Transportation Finance Package also authorized \$20 million in General Obligation Bonds to provide loans to local governments to help them pay their cost participation shares on the projects listed in Figure 1. Currently, only three local governments are considering loans through this program. The City of Chanhassen is considering a loan of around \$4.5 million on the TH 212 project. The cities of Bloomington and Eden Prairie are considering loans for the TH 169/I-44 projects. The amounts have not been determined. Given the low demand for this loan



program from local governments on BAP projects, Mn/DOT and the TH Corridor Projects Account Advisory Committee determined that the program should be offered to all local governments with cost shares on TH projects. Mn/DOT will begin work to develop a project selection process for this expanded loan program.

## B. Safety & Preservation Projects

In addition to the Bond Accelerated Program, the 2003 Transportation Finance Package also included \$100 million (\$25 million/yr. 2004-07) from a spend-down in the TH Fund Balance to advance projects that would improve safety and help preserve existing roadways. These advancements are known as the Safety & Preservation Projects. Although there are no reporting requirements for the Safety & Preservation Projects, Figure 2 contains information on the current status of the projects currently funded under this program.

**FIGURE 2**

### Safety & Preservation Projects (\$ Millions)

DIST	TH	LOCATION	ORIG. SCHED. YEAR	CURRENT LETTING DATE	TOTAL TH CONST
4	10	TH 32 Interchange in Clay Co. – New Interchange (D/B)	2008	<b>LET 11/19/04</b>	\$ 8.6
6	35	1 Mi. S. of TH 19 to Scott Co. Rd. 2 – Overlay and Bridge Replacement	2005	<b>LET 3/26/04</b>	8.4
6	35	Iowa Border to I-90 in Freeborn Co. – Overlay	2006	<b>LET 11/19/04</b>	13.2
8	212	Glencoe to W. Jct. TH 5 in McLeod Co. – Overlay	2007	1/27/06	9.2
M	94	TH 120 to McKnight – Add Third Lane	2011	<b>LET 9/24/04</b>	8.7
M	65	TH 242 in Blaine – New Interchange	2013	3/07	12.0*
M	94	Rogers to Weaver Lake Rd. – Install Median Cable Safety Barrier	NA	<b>LET 4/23/04</b>	0.6
		<b>TOTAL</b>			\$60.7

\* MnDOT share from Safety & Preservation funding.

**Key:**

CR	County Road	DIST	District
CSAH	County State Aid Highway	I	Interstate
D/B	Design Build	TH	Trunk Highways (state highways)

Like the BAP projects, there have been changes in the cost and timing of some of the Safety & Preservation Projects. The TH 10/32 Interchange project was let one year ahead of the proposed advance year for approximately \$2 million more than the original scoping estimate. The I-35 overlay project from the Iowa border to I-90 was let for approximately \$2.8 million less than originally estimated.

### C. Metro Transit Advantage Projects

The BAP legislation required the commissioner of transportation to use at least \$36 million of the TH Bonds for accelerating transit capital improvements on trunk highways such as shoulder bus lanes, bus park-and-ride facilities, and ramp meter-bypass facilities. Figure 3 contains information on the current status of the Metro Transit Advantage Projects.

**FIGURE 3**

#### Metro Transit Advantage Projects (\$ Millions)

TH	LOCATION	FACILITY TYPE	PROJECT LETTING DATE	BOND COST	
36	Rice St. in Roseville	Park/Ride Lot	3/31/05	.875	
55	CR 73 in Plymouth	Park/Ride Lot	4/1/05	2.500	
61	Lower Afton Road in St. Paul	Park/Ride Lot	4/22/05	.230	
65	In East Bethel	Park/Ride Lot	6/22/07	.200	
494	84 <sup>th</sup> St/Chalet Rd in W. Bloomington	Park/Ride Lot	4/30/05	1.200	
494	Penn Ave in Richfield	Park/Ride Lot	12/31/04	.300	
100	Edina	Park/Ride Lot	3/31/06	.300	
394	CR 73 in Minnetonka	Park/Ride Lot	2/28/05	6.000	
169	NW Corridor at CR 81 & Brooklyn Blvd.	Park/Ride Lot	8/31 /06	5.500	
101/41	SWMT at TH 101 & 41	Park/Ride Lot	2006/2007	5.000	
62	TH 77 to 35W	Bus Shoulders	2/25/05	.300	
62	TH 212 to Penn Ave.	Bus Shoulders	3/25/05	1.100	
51	TH 36 to Pierce Butler	Bus Shoulders	2/25/05	.500	
94	TH 252 to 4 <sup>th</sup> Street	Bus Shoulders	7/22/05	.450	
77	66 <sup>th</sup> St. to I-494	Bus Shoulders	2/25/05	.070	
	SUBTOTAL			24.525	
TIED TO HIGHWAY BOND ACCELERATED PROJECTS					
212	Hennepin CSAH 4 to Carver CR 147	Bus Only Shoulders, Park/Ride Lots	3/4/05	5.400	
494	I 394 to TH 212/5 in Eden Prairie/Minnetonka	Bus Only Shoulders, HOV Ramp Bypasses	LET 5/14/04	1.200	
169	Anderson Lakes/Pioneer Trail Interchanges	HOV Ramp Meter Bypasses, Bus Only Shoulders	LET 5/21/04	.400	
694	West to East Junctions I 35E in Vadnais Heights	HOV Ramp Meter Bypass	9/23/05	.400	
	SUBTOTAL			7.400	
	PROGRAM DELIVERY	All Mn/DOT Projects		1.709	
	ADDITIONAL PROJECTS TO BE DETERMINED			2.366	
	GRAND TOTAL			36.000	
KEY:					
CR	County Road	CSAH	County State Aid Highway	DIST	District
HOV	High Occupancy Vehicle	I	Interstate	TH	Trunk Highways (state highways)

## D. Greater Minnesota Transit Projects

The BAP legislation also provided up to \$5,000,000 through June 30, 2008, in federal transit funds for capital assistance to public transit systems in Greater Minnesota. Figure 4 contains information on the current status of these Greater Minnesota Transit Projects.

**FIGURE 4**

### Greater Minnesota Transit Projects

<b>DIST.</b>	<b>PUBLIC TRANSIT SYSTEM</b>	<b>TYPE OF WORK</b>	<b>YEAR SCHED.</b>	<b>FED. \$</b>	<b>TOTAL COST**</b>
3	Annandale Public Transit	Purchase Bus	2006	44,000	55,000
3	Annandale Public Transit	Purchase Bus	2007	45,600	57,000
3	Isanti/Chisago County Public Transit	Purchase Bus	2004	41,800	52,250
3	Isanti/Chisago County Public Transit	Purchase Bus	2005	42,400	53,000
3	River Rider Transit	Purchase Bus	2007	80,000	100,000
3	St. Cloud MTC Public Transit	Purchase Bus	2004	285,000	356,250
3	St. Cloud MTC Public Transit	Purchase Bus	2005	415,000	518,750
3	St. Cloud MTC Public Transit	Purchase Bus	2006	180,000	225,000
3	St. Cloud MTC Public Transit	Purchase Bus	2007	92,000	115,000
3	Tri-CAP, Inc. Public Transit	Purchase Bus	2006	44,000	55,000
4	City of Moorhead Public Transit	Joint Maintenance Transit Facility	2004	200,000	250,000
4	Clay County Public Transit	Purchase Bus	2006	44,000	55,000
6	Cedar Valley Public Transit (City of Albert Lea)	Purchase Bus	2006	44,000	55,000
6	City of Rochester Public Transit	Purchase Bus	2004	200,000	250,000
6	City of Rochester Public Transit	Purchase Bus	2005	300,000	375,000
6	City of Rochester Public Transit	Purchase Bus	2006	300,000	375,000
6	City of Rochester	Purchase Bus	2007	274,000	342,500
6	Mower County	Purchase Bus	2007	45,600	57,000
6	SEMCAC Public Transit (Dodge, Fillmore, Houston, Steele and Winona Counties)	Purchase Bus	2006	44,000	55,000
6	Steele County Public Transit	Purchase Bus	2006	44,000	55,000
6	Three Rivers Public Transit (Goodhue and Wabasha Counties)	Purchase Bus	2004	41,800	52,250
7	Brown County Public Transit	Purchase Bus	2006	44,000	55,000
7	City of Mankato Public Transit	Purchase Bus	2004	225,600	282,000
7	City of Mankato Public Transit	Purchase Bus	2005	200,000	250,000
7	City of Mankato Public Transit	Purchase Bus	2007	238,400	298,000
7	Rock County Public Transit	Purchase Bus	2006	44,000	55,000
7	SMOC/Nobles County Public Transit	Purchase Bus	2005	42,400	53,000
7	Watsonwan County Public Transit	Purchase Bus	2006	44,000	55,000
8	Trailblazer (McCloud and Sibley Counties)	Purchase Bus	2007	45,600	57,000
8	Western Public Transit (Jackson, Lyon and Redwood Counties)	Purchase Bus	2006	132,000	165,000
			<b>TOTAL</b>	<b>3,823,200</b>	<b>4,779,000</b>

\* Project Selection for 2008 will be based on future identification of transit needs. There will be approximately \$1.2 million available for 2008.

\*\* Difference between the total project cost and the federal funds provided under this program will be the responsibility of the local public transit provider.

## **II. Compliance with Trunk Highway Bonding Reporting Requirements - Art. 3, § 1, Subd. 2 and § 5 (1 and 2)**

### **A. Geographic Distribution Requirements**

The legislation states that in spending the TH Bond and Federal Fund Advance Construction, “the commissioner shall, to the maximum feasible extent, seek to allocate spending equally between the department of transportation metropolitan district and the remainder of the state.” Art. 3, § 1, Subd. 1(b) and § 3(c). Spending on the projects shown in Figure 1 is, to the maximum feasible extent, allocated equally, based on benefits, between Mn/DOT’s Metro District and Greater Minnesota. The TH Bonds are split equally between the two groups and the Federal Fund Advance Construction is split according to where the most benefit was derived from using TH Bonds to leverage federal funds.

As indicated in the 2004 Report, the TH 212 project was split between Greater Minnesota and Metro because numerous studies and research showed that Mn/DOT District 8 and Metro District will benefit equally from this project due to its importance as a critical farm-to-market corridor. All of the local governments along the TH 212 corridor, as well as District 8 planning documents, have stressed the significance of this project to their communities in western and southwestern Minnesota.

All of the projects listed in Figure 1 are trunk highway improvements that meet the requirements of Art. 3, § 1, Subd. 1(a)(1 and 2).

### **B. Safety and Capacity Requirements**

The legislation also requires that not less than \$25 million of the TH Bonds in the seven-county metropolitan area and not less than \$25 million of the TH Bonds outside the metropolitan area be spent on “highway safety and capacity improvement projects including but not limited to the addition of lanes on trunk highway corridors with known safety problems.” Art. 3, § 1, Subd. 1(a)(2). As indicated in the 2004 BAP Report, virtually all of the TH Bonds, both inside and outside the seven-county metropolitan area, are being spent on highway safety and capacity improvement projects including, but not limited to the addition of lanes on trunk highway corridors with known safety problems.

### **C. Program Delivery Requirements to Complete BAP Projects**

The legislation allows the commissioner of transportation to “use up to \$68.5 million of the TH Bond appropriation for program delivery.” Art. 3, § 1, Subd. 1(c).

The legislation also requires that Mn/DOT report on “the department’s plans to implement trunk highway improvements funded under this article with current department staffing, and an analysis of the need for additional staffing and consultant services.” Art. 3, § 5(2).

Figure 5 shows the estimated program delivery expenditures by Mn/DOT’s Districts and expert offices. Because some of the program delivery for these projects had already been completed at the time the BAP legislation was passed, the program delivery reflected in Figure 5 are the expenditures that are needed to complete the projects.

Figure 5 also shows the estimated amounts that will be expended on internal department staff and by consultants to deliver this program.

As indicated in the 2004 Report, Mn/DOT does not plan to hire any additional permanent staff to deliver this program. However, some temporary unclassified employees have been hired to assist in delivering this program. In all other instances, Mn/DOT is using consultants for program delivery where it lacks sufficient staff or expertise.

**FIGURE 5**

**Mn/DOT District and Expert Office  
Program Delivery to Complete Bond Accelerated Program  
(\$ Millions)**

	Program Delivery			
	Preliminary Engineering/Design		Construction Engineering/Management	
	Internal	Consultant	Internal	Consultant
Districts	\$11.7	\$12.6	\$24.9	\$15.7
Expert Offices	\$ 9.9	\$ 3.2	\$ 2.4	\$ 0.4
Total	\$21.6	\$15.8	\$27.3	\$16.1
Total Program Delivery Need			\$ 80.8*	
Less: Federally Funded Consultant Work			-17.8	
Trunk Highway (TH) Bond Program Delivery			<u>\$ 63.0</u>	
TH Bonds Available for Program Delivery			<u>\$ 68.5</u>	
Difference			+ \$ 5.5**	
* "Total Program Delivery Need" only reflects the BAP Program Delivery that is being centrally funded. The Districts and expert offices have funded some program delivery activities for BAP projects through their regular state operating budgets. Program Delivery on highway construction projects generally amounts to at least 21% of the project construction cost.				
** TH Bond dollars that are not spent on BAP Program Delivery will be spent on BAP construction activities.				

**D. Transit Requirements**

As previously indicated, the legislation requires that at least \$36 million of the TH Bond appropriation be used "for accelerating transit capital improvements on trunk highways such as shoulder bus lanes, bus park-and-ride facilities, and ramp meter-bypass facilities." Art. 3, § 1, Subd. 1(d). Figure 3 shows that \$36 million of the TH Bond proceeds will be spent on park-and-ride lots, bus shoulders, and other transit advantages in the metropolitan area.

Also as previously indicated, the legislation allows the commissioner to spend up to \$5 million through June 30, 2008, in federal funds for capital assistance to Greater Minnesota public transit systems. Art. 3, § 4. Figure 4 shows the Greater Minnesota transit capital projects that will be commenced under this program.

### III. Compliance with Federal Advance Construction Reporting Requirements - Art. 3, § 3(d) and § 5(1)

#### A. Federal Funding and Advance Construction (AC) Background

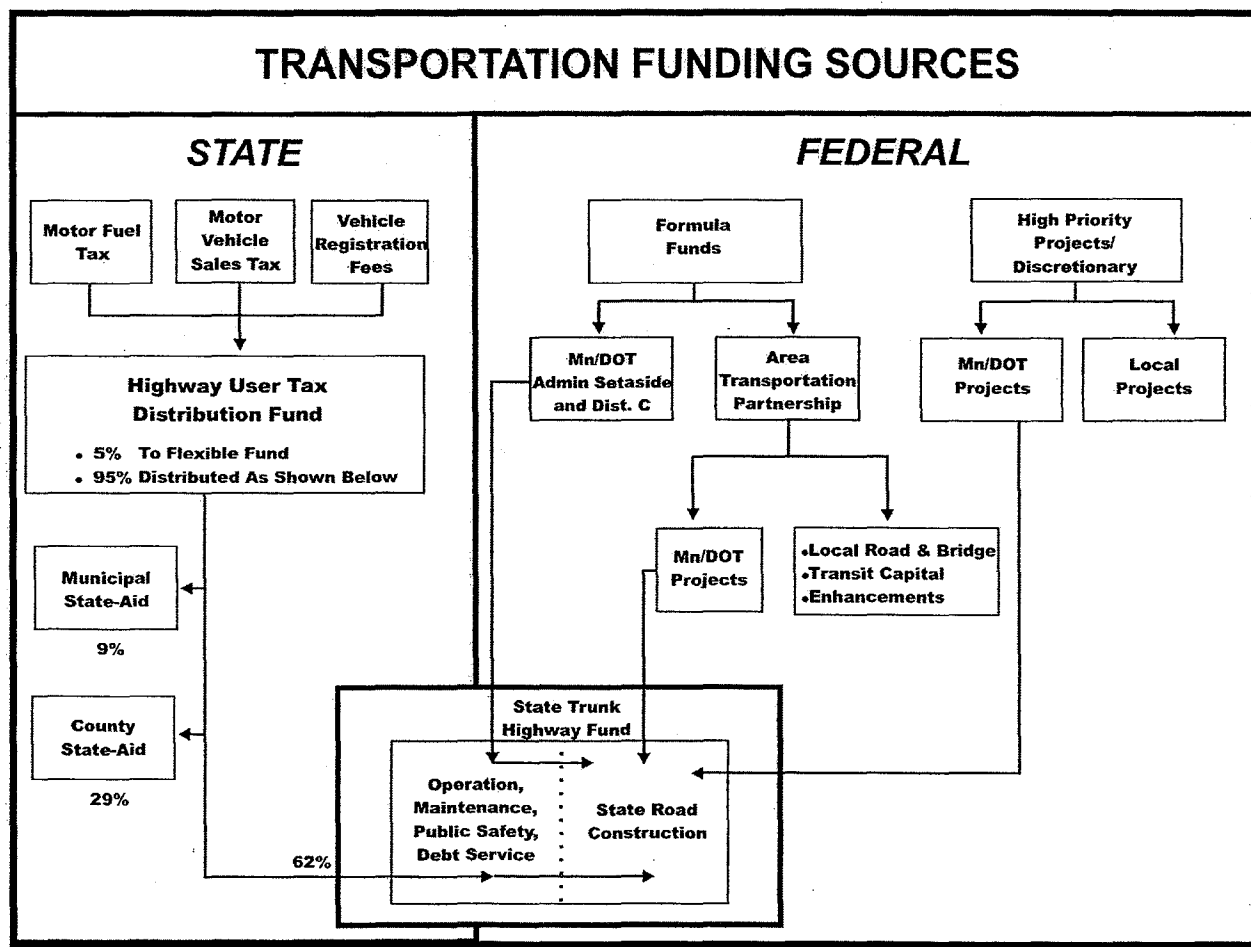
##### 1. Federal Funding

As indicated in the 2004 Report, the amount of federal funds Congress appropriates to Minnesota each year for highways is determined primarily by federal formulas and Congressional earmarking.

Figure 6 illustrates how federal funds are distributed within the State.

FIGURE 6

#### Transportation Funding Sources



Before a federal aid highway project is let, FHWA must authorize the amount of federal funds that can be used for that project. Generally, a federal aid highway construction project requires a 20% match in state or local funds.

Another important point is that FHWA provides federal funds for a project on a “reimbursable basis.” This means that the State or local government must first pay a federal aid eligible bill with state or local funds and then request reimbursement from FHWA for that expenditure. FHWA generally reimburses the State or local government within seven days after a request for reimbursement.

On a conventional federal aid highway project, the full amount of federal funds on a project must be committed (obligated) prior to the time the project is let and awarded. Consequently, those federal funds are not available for other projects in that year.

## **2. Federal Advance Construction (AC)**

Federal Advance Construction (AC) is a federal fund management tool authorized and promoted by FHWA. Federal AC allows a state or local government to award a federal aid highway project without committing (obligating) any of that year’s federal funds. The federal funds do not have to be committed until future years. This allows a state or local government to commit only the federal funds it needs to pay actual project expenditures in each year of project construction. The process of committing only the federal funds that are needed in a year is called “AC Conversion” (or converting AC to federal fund reimbursements).

Federal AC enables Mn/DOT to:

- Better manage its federal funds by not tying up federal funds until they are needed
- Accelerate, expand, and package federal aid projects into larger contracts
- Keep projects on schedule during short-term delays in federal appropriations

Figure 7 shows an example of how AC enables Mn/DOT to better manage its federal funds by not tying up federal funds until they are needed.

**FIGURE 7**

**AC Example:  
Improving Federal Funds Management**

<b>Assume:</b> 1) \$50M of federal funds remaining in current year 2) \$50M project ready to be let in current year (will be built over 2 years - \$25M current year and \$25M subsequent year)	
<b>Conventional Project Approach</b>	<b>Federal AC Project Approach</b>
<ul style="list-style-type: none"> <li>- Mn/DOT uses the full \$50M of federal funds to let the project even though only \$25M is needed in the current year.</li> <li>- No federal funds are left to let any additional projects in the current year.</li> </ul>	<ul style="list-style-type: none"> <li>- Mn/DOT only uses \$25M of the current year's federal funds to let the project (\$25M Federal Funds and \$25M AC)</li> <li>- Mn/DOT can use the remaining \$25M of federal funds for other projects that are ready to be let in the current year.</li> <li>- The following year, Mn/DOT must use \$25M of federal funds to convert the AC to federal fund reimbursements.</li> </ul>

Figure 8 shows an example of how federal AC can enable Mn/DOT to better package a federal aid project to save money on inflation, economies of scale, and administrative costs.

**FIGURE 8**

**AC Example: Project Packaging**

<b>Assume:</b> 1) A three-year project with a total estimated federal cost of \$60M that is ready to be let in SFY 2003. 2) Only \$20M of federal funds are available in each SFY 2003, 2004 and 2005				
<b>Conventional Project Approach:</b> Project would be let in three separate contracts and built as three separate projects over three years at the increased cost of \$63M because of inflation, smaller economies of scale, and higher administrative costs.				
<b>Federal AC Project Approach:</b> Project can be let in one contract and built as one project at the lower estimated cost of \$60M				
<b>Project Approach</b>	<b>SFY 2003</b>	<b>SFY 2004</b>	<b>SFY 2005</b>	<b>Total Project Cost</b>
<b>Conventional Approach</b> (3 separate project contracts built over 3 years)	Encumber \$20M	Encumber \$21M	Encumber \$22M	\$63M
<b>Federal AC Approach</b> (1 project contract built over 3 years)	Encumber \$60M (\$20M Available Federal Funds and \$40M AC)	\$20M of AC Converted to Federal Fund Reimbursements	\$20M of AC Converted to Federal Fund Reimbursements	\$60M



As indicated in the 2004 Report, Mn/DOT, along with almost every other state, has been using AC for nearly 25 years. Over the past several years Mn/DOT has been using AC more aggressively to better manage its federal funds and to accelerate, expand, and package projects. Over the past year Mn/DOT has had to use significant amounts of AC to keep projects on schedule because of the lack of a Transportation Reauthorization Bill and 2-6 month increments in which federal funds have been distributed to the states. Figure 9 shows Mn/DOT's past and projected Federal AC totals for 2004-2009.

**FIGURE 9**

**MnDOT's TH Federal AC Totals  
(\$ Millions)**

SFY	2004	2005	2006	2007	2008	2009
<b>AC Beginning Balance</b>	616	625	638	578	607	382
<b>New AC Encumbered</b>	234	244	233	368	119	58
<b>AC Subtotal</b>	850	869	871	946	726	440
<b>Less: AC Conversions</b>	-225	-231	-293	-339	-344	-197
<b>Ending AC Balance</b>	625	638	578	607	382	243

The amounts shown in Figure 9 reflect only the use of AC on trunk highway projects, and therefore the effects on the Trunk Highway Fund. MnDOT and local units of government have also partnered in the use of AC for local government federal aid projects for some of the same reasons as AC is used for trunk highway projects. Therefore, the federal funding made available to the state of Minnesota each year must, in part, be used for conversion of AC used for these projects. Thus, strategies for use of Minnesota's federal funds must also take the needs of local governments into account. The most current AC balance for local projects was \$42 million (as of 12/31/04).

**B. AC and the Bond Accelerated Program**

The Bond Accelerated Program will use approximately \$426 million of AC. Figure 10 shows an example of how Mn/DOT will use AC and TH Bonding to finance a Bond Accelerated project.

**FIGURE 10**

**Example of Bond Accelerated Project Financing  
(\$ Millions)**

<b>SFY</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Original Project Encumbrance</b> Cost: \$100M (with inflation)			<b>\$100</b> (\$20 State match) (\$80 Federal)		
<b>Original Project Expenditures</b>			<b>\$33</b>	<b>\$33</b>	<b>\$34</b>
<b>Original Federal Reimbursements (80%)</b>			<b>\$26</b>	<b>\$27</b>	<b>\$27</b>
<b>Accelerated Project Encumbrance</b> Cost: \$90M	<b>\$90</b> (\$45 TH Bonds) (\$45 Federal AC)				
<b>Accelerated Project Expenditures</b> (contractor payments)	<b>\$30</b> (TH Bonds)	<b>\$30</b> (\$15 TH Bonds) (\$15 Fed AC authority converted to federal reimbursements)	<b>\$30</b> (Fed AC authority converted to federal reimbursements)		
<b>Accelerated Federal Reimbursements</b>		<b>\$15</b>	<b>\$30</b>		

Figure 10 demonstrates how the TH Bonds are used to leverage federal funds. TH Bonds are used up front to cover project expenditures and federal funds are used later in the project, closer to the years they were originally scheduled. An important point to remember when using AC to accelerate projects is that it will create peaks and valleys in the state road construction program. The years in which projects have been accelerated will have higher amounts of project lettings. The years from which the projects were accelerated will have less federal funds available for project lettings because the federal funds will be needed for AC Conversions on the projects that were accelerated.

Figure 11 shows the Bond Accelerated Program's estimated use of AC and TH Bonds for project encumbrances and actual project expenditures over the life of the program.

**FIGURE 11**

**Estimated Bond Project Encumbrances & Expenditures  
(\$ Millions)**

<b>SFY</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>Total</b>
<b>Estimated Project ENCUMBRANCES:</b>								
TH Bond	57.1	226.2	84.8	31.9	0	0	0	400.0
Fed AC	130.2	137.7	115.2	43.1	0	0	0	426.2
<b>Total</b>	<b>187.3</b>	<b>363.9</b>	<b>200.0</b>	<b>75</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>826.2</b>
<b>Estimated Project EXPENDITURES:</b>								
TH Bond	8.4	148.4	146.1	86.6	10.5	0	0	400.0
Fed AC Conversions	1.1	28.4	72.6	127.5	151.1	37.1	8.4	426.2
<b>Total</b>	<b>9.5</b>	<b>176.8</b>	<b>218.7</b>	<b>214.1</b>	<b>161.6</b>	<b>37.1</b>	<b>8.4</b>	<b>826.2</b>

Figure 11 provides information in compliance with Art. 3, § 5(1). The amounts shown in Figure 11 will be subject to change as the program proceeds.

The \$426 million of Federal AC will be managed to minimize any adverse impact on Mn/DOT's TH Fund Cash. To achieve this, MnDOT's goal will be to convert AC to federal reimbursements as AC project expenditures occur.

As indicated in the 2004 Report, in order to have the necessary federal funds available for these conversions, Mn/DOT's first strategy will be to use any increase in federal funding it receives through the Reauthorization of the Transportation Equity Act for the 21<sup>st</sup> Century (TEA-21).

Because the increase in federal funding through the Reauthorization of TEA-21 may not be sufficient to fully meet the federal fund AC Conversion needs for this program, Mn/DOT's second strategy will be to use the funds originally scheduled for the Bond Accelerated Projects and the Safety & Preservation Projects. The funds that would have been available in the years the accelerated projects were originally scheduled to begin will be used to meet the federal fund AC Conversion needs for this program. For example, District X has a \$75 million project accelerated under this program. The project was originally scheduled to be constructed over three years (i.e. 2007, 2008, and 2009). District X identified \$25 million in each of those years in its 10-Year Highway Plan for this project. Under this program, Mn/DOT will withhold \$25 million in each of those three years from District X and use it to convert AC to federal reimbursements as project expenditures occur.

Using the above two strategies will significantly reduce the likelihood of any adverse impact on TH Fund Cash. Section IV.B will further explain impacts to TH Fund Cash.

Once all of the AC is converted to federal reimbursements for the Bond Accelerated Program, there will be funds left over. These funds will be redistributed to the Districts for additional

projects. Although it is still too early to know exactly when federal funds will be available for redistribution, Mn/DOT has increased District targets for planning purposes beginning in 2011.

### **C. Estimate of Additional AC Available in Future Years**

The legislation also requires Mn/DOT to estimate the amount of additional AC "available for use in future fiscal years and the impact on the department's total road construction program." Art. 3, § 3(d)(2).

Federal policy limits the amount of AC states can use. The total outstanding AC amount that a state can have in any given year cannot exceed the sum of the state's current unobligated balance of federal fund apportionments, plus the amount of federal funds anticipated in the subsequent two years of its approved State Transportation Improvement Program (STIP). *Guidance on Advance Construction of Federal-Aid Projects*, FHWA (May 10, 1996).

Given this policy, the maximum amount of AC that Minnesota could use in a year exceeds \$1 billion. However, it is unlikely that Minnesota could reach this level because of the limited amount of federal funds available for AC Conversion in a given year. Mn/DOT cannot commit more future federal funds than are projected to be available. Given this fact and the projected AC amounts depicted in Figure 9, no additional AC is projected to be available for project acceleration until SFY 2009, at the earliest. It is possible that in SFY 2009, \$100-150 million in additional AC may be available for project acceleration.

The requirement that the Commissioner report on the geographic distribution of the Federal AC (Art. 3, § 3(c) and (d)(3)) was met previously in this report in Figure 1 and Section IIA.

### **IV. Impact of AC on the Trunk Highway (TH) Fund Balance and Cash Flow**

The legislation requires Mn/DOT to report on the impact of AC on the TH Fund Balance and cash flow. Art. 3, § 3(d)(1).

Projecting the impact of AC on the TH Fund Balance and on TH Fund Cash continues to be difficult because Congress has not yet passed a Federal Transportation Reauthorization Act, which was due on October 1, 2003. A Federal Reauthorization Act is anticipated within the next 6-9 months. The passage of this piece of federal legislation will put Mn/DOT in a much better position to accurately estimate the impact of AC on the TH Fund Balance and Cash.

MnDOT has been developing better tools for financial forecasting, analysis, and tracking. Specifically, Mn/DOT has developed the Cash Forecasting Information Tool (CFIT), which is a new computer system that will enable Mn/DOT to better forecast and analyze the department's cash flow. It has also made improvements to the Minnesota Accounting and Procurement System (MAPS) and the Program and Project Management System (PPMS). It has also improved its project estimating techniques and improved many of its internal financial reporting processes. All of these changes will enable Mn/DOT to better project the impact of AC on the TH Fund Balance and on TH Fund Cash, which in turn will enable the department to further maximize its financial resources to build even more projects faster and better.

## **A. TH Fund Balance**

Under current accounting standards, Mn/DOT cannot include AC as a revenue in a state fiscal year unless it will be converted to federal funds in the same year. Consequently, the primary impact of AC on the TH Fund Balance occurs when AC is not converted to federal fund reimbursements as project expenditures occur.

As indicated in the 2004 Report, Mn/DOT is managing the Bond Accelerated Program and its regular program with the goal of converting all AC as project expenditures occur. The primary exception to this goal is the Rochester TH 52 Design/Build (ROC 52) project. The financial plan for ROC 52 was designed knowing that the AC would not be converted in the same year that it was considered a revenue. The impact of ROC 52 on the TH Fund Balance reduced the balance by the end of SFY 2004 by \$50 million, and is projected to reduce it by another \$42 million in 2005.

Fund balance information for the Trunk Highway Fund has recently been calculated and incorporated into the formal fund statements submitted to the Department of Finance in conjunction with the November Economic Forecast. Actual fund balances are displayed for FY 2003 and FY 2004; estimated fund balances are shown for FY 2005, FY 2006, and FY 2007; and planning-based fund balances are shown for FY 2008 and FY 2009. See Minnesota Department of Finance, November 2004 Forecast ([http://www.budget.state.mn.us/budget/summary/fund\\_statements/041206\\_con\\_fund\\_state.pdf](http://www.budget.state.mn.us/budget/summary/fund_statements/041206_con_fund_state.pdf)) to review this statement. This report shows negative fund balance amounts for FY 2006, FY 2007, FY 2008, and FY 2009. However, when Governor's recommendations for the biennial budget are made for FY 2006 and FY 2007, the projected fund balances will again be positive.

A significant reason for the currently projected negative fund balances is the "peaks and valleys" nature of the state road construction program when using AC to accelerate projects that was mentioned on page 15. In fact, the currently planned program of projects, not including the projects funded with bonds, is significantly less than the "base" level of expenditures for state road construction that is incorporated into the Fund Statement for the Trunk Highway Fund.

Another factor affecting the fund balance is the uncertainty about how much and when federal funds will be available. Lower amounts of federal funds would lead to the need to make even greater use of AC to keep projects on schedule. If actual federal receipts would be insufficient to fully convert AC to regular funds status, federal revenue would need to be adjusted down, as has been the case with the ROC 52 project. This would result in a lower fund balance than would otherwise be the case.

## **B. TH Fund Cash**

The immediate impact on the Trunk Highway Fund (TH) cash balance for construction projects funded using Federal AC stems from two items mentioned on page 12 of this report. First, Federal projects are approved on a reimbursable basis. This results in a temporary or "timing" charge to the TH cash balance. Mn/DOT must make payments out of the cash balance until the Federal Highway Administration can be billed for these payments and reimburse Mn/DOT. The second item mentioned was that federally funded projects often require a 20% match of State funds, a permanent charge to the cash balance equal to the non-federal percentage.

As payments on construction projects reach certain levels, AC is converted to cash reimbursement for those construction costs. The process of converting AC takes longer than obtaining reimbursement through use of regular federal funding. This creates a delay in receipt of the cash reimbursement compared to conventional federal funding, typically about 30 days. This places an additional demand on the TH cash balance until the federal reimbursement is received.

As shown on figure 9 on page 14, Mn/DOT carried an AC balance of \$625 million into fiscal year 2005. By the end of 2009, Mn/DOT expects to reduce this balance \$382 million ending with a balance of around \$243 million. Mn/DOT's plan to reduce this existing AC balance, while delivering currently planned construction projects, depends on federal action on a long term transportation reauthorization at or near forecasted levels.

Mn/DOT has developed an internal forecast about funding levels based on what is currently known about bills passed by each branch of Congress last year, as well as the President's proposal. Mn/DOT has received information from Minnesota's congressional delegation and consulted with other states when developing its forecast. However, there is a considerable degree of uncertainty about when reauthorization will occur and what level of funds will be available to Mn/DOT.

In the last 2 years, Mn/DOT staff has dramatically increased cash monitoring and forecasting activities, while developing significant new capability for cash management. In November, Mn/DOT announced completion of the development and implementation of a cash forecasting system, the Cash Forecasting Information Tool (CFIT). CFIT is integrated with Mn/DOT's construction project planning and accounting systems to provide information that improves the accuracy of tracking and forecasting cash balances. CFIT currently projects a low cash balance for 2005 in the \$80-\$90 million range. Longer-range cash forecasts from CFIT will be available in the early part of 2005.

In 2004, the average daily cash balance was about \$80 million lower than in 2003, with a low balance of just over \$101 million. This compares to a low cash balance in 2003 of \$219 million and a previous low balance of \$171 million in 1999. Much of this decline was an intentional spend down of the cash balance to finance the Rochester Highway 52 project. This accounted for about \$50 million of the decrease. Also in 2004, federal authorizations were received in a highly sporadic and unpredictable fashion, delaying AC conversions, many until late in the federal fiscal year. This created some peaks and valleys in the cash balance that normally does not occur. Despite all of this, the cash balance in the TH fund at the end of December 2004 was over \$200 million, more than \$20 million higher than at the end of December 2003.

For more information on this Legislative Report, please contact:

Al Schenkelberg, Director  
Office of Investment Management  
Minnesota Department of Transportation  
395 John Ireland Boulevard, MS 440  
St. Paul, MN 55155  
Phone: (651)296-8478  
Email: [al.schenkelberg@dot.state.mn.us](mailto:al.schenkelberg@dot.state.mn.us)  
Website: [www.oim.dot.state.mn.us](http://www.oim.dot.state.mn.us)